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FISCAL IMPACT STATEMENT

LS 6980
BILL NUMBER: HB 1306

NOTE PREPARED: Jan 12, 2008
BILL AMENDED:

SUBJECT: State Spending Cap.

FIRST AUTHOR: Rep. Buck
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides that certain state expenditures for state fiscal years beginning after June 30, 2009, may not increase more than the lesser of: (1) 3% of the previous state fiscal year's expenditures; or (2) the sum of: (a) the percentage change in the population of Indiana; plus (b) the percentage change in the Consumer Price Index for the Midwest region for all items as published by the Bureau of Labor Statistics. It requires the Budget Agency to determine and publish the spending cap amounts in the Indiana Register. It also provides for emergency expenditure and mandatory reductions in expenditures. It requires that the digest of a budget bill or a conference committee report on a budget bill must contain certain information concerning state appropriations and expenditures. It also provides that current law concerning business cycle state spending controls expires June 30, 2009.

Effective Date: July 1, 2008.

Explanation of State Expenditures: *Expenditure Limits* - The bill establishes a new method of determining annual state spending caps beginning with FY 2010 appropriations and allotments, and provides that the current state spending cap method expires at the end of FY 2009. The bill requires the Budget Agency to publish in the Indiana Register the *maximum total expenditure amounts* for *controlled state funds* for an ensuing two-year budget period no later than April 1st of the odd-numbered year in which that budget period is to begin. The first two-year budget period that the bill applies to is the FY 2010-FY 2011 budget period beginning on July 1, 2009. Thus, the maximum total expenditure amount for FY 2010 and FY 2011 must be published by April 1, 2009.

The bill defines a *controlled state fund* as the state General Fund, the Property Tax Replacement Fund, and the Counter-Cyclical Revenue and Economic Stabilization Fund. The method for determining the *maximum* *total expenditure amounts* for each fiscal year of a budget period is described in (1) and (2) below.

(1) The maximum total expenditure amount for the first fiscal year of an ensuing budget period is based on the maximum total expenditure amount for the first fiscal year of the current budget period increased by the lesser of either (a) 6% or (b) an estimate of the *composite percentage change* in state population and consumer prices during the current budget period. Thus, the maximum total expenditure amount for FY 2010 would equal the FY 2008 maximum total expenditure amount increased by the lesser of either 6% or the estimated composite percentage change in state population and consumer prices during FY 2008 and FY 2009. (Note: The FY 2008 appropriations from the controlled state funds would be used in lieu of a computed maximum total expenditure amount to start the procedure under the bill.)

(2) The maximum total expenditure amount for the second fiscal year of an ensuing budget period is based on the maximum total expenditure determined in (1) above increased by the lesser of either (a) 3% or (b) an estimate of the composite percentage change in state population and consumer prices during that first fiscal year of the ensuing budget period. So, the FY 2011 maximum total expenditure amount would be equal to the FY 2010 maximum total expenditure amount increased by the lesser of 3% or the estimated composite percentage change in state population and consumer prices during FY 2010.

The *composite percentage change* is the sum of: (1) the percentage change in the Consumer Price Index for all urban consumers in the Midwest; and (2) the percentage change in state population as determined by the most recent of the federal decennial census, a federal special census, a special tabulation, or a corrected population count. The composite percentage change for the first 20 months of the current budget period would be used to estimate the two-year and one-year rates of change for an ensuing budget period. Thus, the composite percentage change in population and consumer prices from July 1, 2007, to February 28, 2009, would be used to estimate the two-year and one-year rates of change to determine the maximum total expenditure amounts for FY 2010 and FY 2011.

Had the bill been in effect for FY 2008 and FY 2009, the composite percentage change would have been calculated for the period July 1, 2005, to February 28, 2007. This would have allowed the state spending cap to grow by an average of 1.9% per year during the FY 2008-FY 2009 budget period. The bill would limit annual spending cap growth to no more than 3%.

The bill states that the General Assembly shall not appropriate and the Budget Director may not allot more expenditures in a state fiscal year from controlled state funds than the state spending cap. The bill allows the state spending cap to be increased, if at least one of the following occurs: (1) a spending responsibility has shifted from another level of government to a controlled state fund; (2) a spending responsibility has shifted from a fund not limited by this chapter to a limited fund; or (3) there has been an expansion of state services and state spending and a tax increase has been dedicated to these services. The increase in the spending cap requires approval of a two-thirds majority of both the House and Senate. The bill also sets out procedures for the reduction of the state spending cap under certain conditions.

This bill affects appropriations and allotments for fiscal years beginning FY 2010. The impact on state spending is indeterminable and subject to legislative, executive, and judicial actions.

Budget Bill Requirements - This bill requires that the digest of the conference committee report on the budget bill contain the following information: (1) the total amount of appropriations from controlled state funds; (2) the total amount of appropriations for expenditures subject to general expenditure controls from controlled state funds; and (3) the expenditure limit for controlled state funds. This requirement would first apply for the budget bill considered during the 2009 General Assembly.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Budget Agency, General Assembly.

Local Agencies Affected:

Information Sources: U. S. Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers in the Midwest, All Items.

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